UZBEKISTAN COUNTRY COMMERCIAL GUIDE FY 2002

Chapter 1 - Executive Summary

This Country Commercial Guide (CCG) presents a comprehensive look at Uzbekistan's commercial environment, using economic, political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordination Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. Business Community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government Agencies.

The Republic of Uzbekistan, one of five Central Asian nations to emerge from the dissolution of the Soviet Union in 1991, is a doubly land-locked state on the ancient Silk Road, at the geographic and cultural center of Central Asia. Its capital, Tashkent, is a city of 2.5 million, with ballet and opera theatres, academic institutions, museums, churches and mosques. The state language is Uzbek, but Russian is widely used for government and business dealings.

Uzbekistan suffered less than other newly independent states following the collapse of the Soviet Union. Its cotton and gold exports provided a steady source of foreign exchange, it was self sufficient in energy, and it had a relatively small industrial sector to restructure. Uzbekistan has all the ingredients needed to become a regional economic powerhouse: a dynamic, literate and entrepreneurial population of 25 million, a central location at the crossroads of Central Asia, relatively good infrastructure, rich mineral resources, energy self-sufficiency, and political and social stability. Unfortunately, an inconvertible currency, restrictive trade practices, and a heavy layer of bureaucracy have deterred foreign investment and hampered economic growth.

The Government of Uzbekistan has stated that it is committed to a gradual transition to a free market economy, but its top priority is maintaining political stability. Much of the economy remains in state hands, with agriculture under tight state control, and the government pursues an import substitution policy by controlling access to foreign exchange. Uzbekistan's slow pace of reform has discouraged investment and led international lending organizations to suspend or scale back credit. The government has made some progress in reducing inflation and the budget deficit, but government statistics understate both, while overstating economic growth. The government is taking some modest steps to reduce the formal and informal barriers that constrain the nascent private sector.

Political relations between the United States and Uzbekistan are strong, with close cooperation in foreign policy, security, antiterrorism, and anti-narcotics issues and frequent high-level bilateral contacts. U.S. concerns about Uzbekistan's slow progress on democratic reform and its human rights abuses, as well as Uzbekistan's reluctance to undertake serious economic reforms, prevent the relationship from developing more fully, however. Uzbekistan's Constitution provides for a presidential system with separation of powers, freedom of speech, and representative government. In practice President Islam Karimov and the centralized executive branch that serves him dominate political life. President Karimov makes virtually all key decisions in the country, appoints and removes ministers and local officials at will, and clamps down on any opposition activity. The Oliy Majlis (Parliament) meets only a few days each year, and has little power to shape laws. Despite constitutional provisions for an independent judiciary, the executive branch heavily influences the courts in both civil and criminal cases.

The leading sectors for U.S. exports and investment are machinery and equipment for the food processing and packaging, textile, mining, energy and civil aviation industries, as well as information technology and communications.

Import contract registration and currency quotas are barriers to imports. Tariffs are not extremely high, but excise duties on certain products make their import prohibitively expensive. Investment is constrained by currency inconvertibility, cumbersome banking procedures, and other bureaucratic problems. Most investment is through joint ventures. Major investors usually obtain government decrees to establish the conditions and benefits of their investment. This is an expensive, time-consuming and non-transparent process. Credit lines provided by the EBRD, ADB, IFC and other international lenders through Uzbekistan's major state-owned banks are an available source of finance for Uzbekistan's small and medium enterprises.

Chapter 2 – Economic Trends and Outlook

Uzbekistan suffered less than other newly independent states following the collapse of the Soviet Union. This good fortune is attributable to several factors: Uzbekistan's principal exports were and remain cotton and gold, for which it was easily able to find new markets. The country was nearly self-sufficient in energy, and now is a modest net exporter. It was saddled with relatively little inefficient heavy industry, and has moved only very slowly to reform that sector of its economy.

While Uzbekistan has managed to avert a major collapse, its growth remains far below its considerable potential. Uzbekistan has all the ingredients needed to become a regional economic powerhouse: a dynamic, literate and entrepreneurial population of 25 million, a central location at the crossroads of Central Asia, relatively good infrastructure, rich mineral resources, energy self sufficiency, and political and social stability. Unfortunately, an inconvertible currency, restrictive trade practices, and a heavy layer of bureaucracy have deterred foreign investment and hampered economic growth.

Following its September 1, 1991 declaration of independence, Uzbekistan has pursued a policy of very gradual economic reform. Preservation of political stability remains the government's top priority, and economic reform can occur only where the government does not see it as a threat to stability. Much of the economy remains in state hands, the agricultural sector remains under tight state control, and the government attempts to control consumption and investment patterns by controlling access to foreign exchange.

Privatization

While small businesses were privatized almost immediately, and many medium-sized firms were nominally privatized into joint stock companies (with the government still wielding effective control), the big enterprises remain state-owned. An ambitious privatization program is stalled due to lack of investor interest, compounded by government reluctance to give up controlling shares or accept realistic (lower) bids. The government privatization agency is preparing to privatize 51% of Uzbek Telecom under a World Bank loan; this is widely viewed as a key test case for privatization. Partial privatization of the state-owned petroleum holding company, Uzbekneftigaz, is also underway, with a BNP-Paribas-led consortium preparing the company for privatization.

Agriculture

The agricultural sector is geared to the production of two principal crops: cotton, which accounts for roughly 40% of Uzbekistan's hard currency revenues, and wheat, which is grown for import substitution. These crops, together with others such as rice and sugar beets, are grown under a state order system. The state determines what crops will be grown on what land, provides farms with the needed inputs at subsidized prices, and buys the crop at a state-determined price, generally far below its market value. Only farmers who meet their state-set quotas are able to sell a portion of their crop at a negotiated market price; those who do not meet the quota must sell their entire crop at the state order price. Many of Uzbekistan's rural inhabitants receive no regular cash income; they depend on kitchen gardens and barter to survive, and their only cash income comes from picking cotton in the autumn (at 14 soum, or about a penny and half, per kilo).

The rest of the agricultural sector is much more dynamic. Uzbekistan's abundant fruit and vegetable crops feed the nation and its neighbors, especially Russia and Kazakhstan, and are an increasingly important source of export income. Lack of adequate transportation to market and up to date food processing equipment causes significant crop losses, however. Some crops are also subject to export restrictions. Agriculture in Uzbekistan also suffers from inadequate water supply and a deteriorating irrigation network, soil depletion and salinization, no crop rotation, and lack of fertilizer, pesticides, and other inputs. Excessive irrigation using water from the Amu Daryo and Syr Daryo rivers has reduced their flow to the Aral Sea to a trickle. The resulting desiccation of the Aral Sea is one of the world's worst ecological disasters.

Light Industry

Uzbekistan is the fourth largest cotton producer in the world and the second largest exporter after the United States, but its textile industry is remarkably underdeveloped. Foreign investment projects over the last few years, including Korean Kabul Textiles ($194 million) and the Turkish firms “Astop” (DM 40.4 million) and “Tekfen” (DM 42.12 million), have begun to modernize cotton processing. Uzbekistan is also developing its silk processing capacity.

Uzbekistan's food processing industry similarly lags far below its potential. Uzbekistan produces an abundance of fresh fruit and vegetables, but most food processing plants still use obsolete equipment installed 25 or even 40 years ago. State-of-the-art food processing and packaging equipment is in great demand.

Resources and Heavy Industry

Uzbekistan has significant natural resources and relatively developed mining and oil & gas industries. Uzbekistan is rich in natural resources: oil (8.1 million tons production in 1999), gas (55.6 billion cubic meters production in 1999), and gold (about 70 tons extracted annually). Much of the foreign investment that has come in to Uzbekistan since independence has been focused on natural resource extraction and processing. In recognition of foreign interest and in an effort to attract capital, the government has allowed foreign companies significant access to strategic natural resources.

Heavy industry includes plants manufacturing agricultural machinery, aircraft, cable wire, passenger and commercial vehicles, tools and parts for railway maintenance. Industrial production mechanisms are based on antiquated Russian-designed processes. The largest foreign investment project in the sector is the 658 million-dollar automobile plant that Korea’s Daewoo Corporation built in Andijan Province. Uz-Daewoo Auto has a capacity of nearly 200,000 cars a year, but because currency convertibility issues limit the importation of parts and materials, it produced only 58,300 cars in 1999 and even fewer -- 30,700-- in 2000. Since 1997 Uz-Daewoo Auto is the leading automobile exporter in the Russian market, which is a duty-free market for Uzbekistan products.

Infrastructure

Transport infrastructure in Uzbekistan is satisfactory but still requires further development and modernization. Roads sustain freight transport and reach all areas of the country, and a rail network connects the main cities. Uzbekistan's location makes it the natural transportation hub for its four Central Asian neighbors, but its doubly landlocked status presents problems. The closest route to the sea, to the south, is blocked by the conflict in Afghanistan. Transport through China is theoretically possible, but those poorly maintained roads cross some of the highest mountain passes in the world. Rail and road access to Russia is available and regularly used, but Uzbekistan favors the rail/sea route through Turkmenistan, over the Caspian Sea, and further by rail through Azerbaijan and Georgia to the Black Sea.

Air transport to Uzbekistan is good. Airport runways, including Tashkent's, can handle the largest transport aircraft made. In addition to Uzbekistan Airways, which boasts a modern fleet of Boeing and Airbus aircraft and has compiled a strong safety and service record, carriers from Germany, Turkey, Korea and various NIS countries fly to Tashkent. Tashkent airport can handle freight reasonably well, but its international passenger terminal is long overdue for renovation.

Telecommunications in Uzbekistan have improved tremendously in recent years, with the addition of digital switching stations in Tashkent and around Uzbekistan, but much remains to be done. Cellular phones are widely used; Uzbekistan has six service providers. Construction of inter-city fiber optic lines and an international fiber optic line are planned.

Small and Medium Enterprises

The most dynamic sector of the economy is small and medium enterprises (SMEs), which have benefited from several reforms introduced since late 1998: a decree limiting harassing inspections, a unified tax for small businesses, liberalized access to cash and credit. SMEs have grown from a mere one percent of GDP in 1991 to 38% in 2000; the government hopes that SMEs will provide the necessary job growth to sop up excess labor from heavy industry and agriculture. Foreign credit lines for SMEs have also helped develop the sector, but, because of currency convertibility restrictions, the credits must be targeted to firms with export revenue to repay the foreign exchange debt.

Import Substitution

Foreign exchange controls, reintroduced in 1996 to conserve scarce foreign exchange after poor cotton and wheat harvests, also serve as a vehicle for the government's import substitution strategy. The government seeks to limit imports of consumer goods, and instead channel foreign exchange resources into capital goods and high technology. The government has directed significant resources into import-substituting production of items from automobiles and farm equipment to consumer electronics, batteries and lubricants to wheat and sugar. Many import substituting ventures that require imports of raw material or component parts have been forced to cut back production or close for lack of foreign currency quotas for needed imports. The ones that survive either are very high profile and well-connected, or are able to earn their own foreign currency from exports.

Economic Growth and Inflation

The factors outlined above have constrained economic growth far below its potential. Due to the unreliability of government statistics, which often serve political rather than economic ends, it is difficult to make an accurate estimate of economic growth in Uzbekistan. The government claimed real economic growth of 3.8% in 2000, but the real figure is almost certainly lower, perhaps even stagnant. The government puts inflation in 2000 at 26%, but the U.S. Embassy, using its own transportation and food price data, estimates inflation at 50-60%. The government usually increases wages by 50% each year, which roughly compensates for inflation. By any estimate, however, inflation has been remarkably stable in the past several years, when compared with its high of 1,568% in 1994.

GDP estimates depend very much on the exchange rate used to convert the government's soum figures to dollars. Using a weighted average of the three exchange rates, GDP was $8.2 billion for 1999. The 2000 total of $5.5 billion is lower due to the devaluation of the soum against the dollar in 2000, but we do not believe that represents a real contraction of Uzbekistan's economy. Per capita GDP estimates again depend on the exchange rate used; the best estimate for 1999 using the weighted exchange rate is $520. The average wage is about $10-$15 per month. There are, however, many more affluent Uzbeks: those who have dollar incomes from foreign employers or property rentals; some businessmen; and government officials in certain lucrative positions. This affluent population is chiefly concentrated in Tashkent, but also in several other major cities: Samarkand, Bukhara, Andijon, Ferghana, Navoi.

Balance of Payments and Debt

After reintroducing strict currency controls in late 1996, Uzbekistan lost nearly half its foreign exchange, gross reserves going from $1.9 billion at the end of 1996 to $1.167 billion. Since then, it has managed to keep reserve levels at or near the $1.2 billion mark, but only by severely restricting imports. Import levels have dropped from a high of 4.2 billion in 1996 to 2.6 billion in 1999. Exports have also dropped, from a high of 3.7 billion in 1997 to under $3 billion in 1999, of which raw cotton exports account for about 35%. By this drastic reduction in trade, Uzbekistan has managed to eke out a modest balance of payments surplus of $359 million in 1999. Cotton export revenues are very vulnerable to low harvests and to low cotton prices; low harvests in 1998 and 2000 were offset by higher prices, but the higher 1999 harvest was offset by lower prices, leaving overall cotton export income fairly steady at about $1.1 billion.

Between 1992 and 1996, U.S. trade with Uzbekistan grew rapidly. U.S. exports to Uzbekistan reached $352 million in 1996, driven by sales of passenger aircraft, grain, and agricultural machinery. Trade turnover fell sharply in 1997, reflecting in part Uzbekistan’s currency convertibility restrictions. In 1998 U.S. exports fell to $147 million, in 1999 increased to $338 million with the sale of two Boeing jets, and then fell back to $132 million in 2000.

Total foreign debt stands at about $4 billion, and debt service payments for 2000 amount to about $650 million. Concern about Uzbekistan's growing debt burden has caused many of its creditors, from development banks to export finance institutions to commercial banks, to reassess their lending to Uzbekistan. Uzbekistan, which is justifiably proud of its excellent debt repayment record, has also become much more cautious about assuming new debt obligations. The U.S. Export Import Bank (ExIm) is one of Uzbekistan's largest creditors, with about $1 billion in outstanding loans. ExIm's exposure in Uzbekistan is second in the NIS, behind Russia.

Currency Convertibility and the Outlook for the Future

Currency controls, and the resulting multiple exchange rate system, were initially introduced as a "temporary" measure. In July 1998, President Karimov pledged that convertibility would be restored in 2000, and in early 2000 the hopes of investors, international financial institutions (IFIs) and other observers were very high. The government did take measures in 2000 to reduce the distortions from its multiple exchange rate system by first devaluing the official exchange rate by 35% and merging it with the commercial rate, and then introducing a new exchange booth rate close to the black market rate. The chart below shows the history of Uzbekistan's exchange rates.

Unfortunately, the measures the government took in 2000 did little to ease the plight of investors by providing access to foreign exchange. In theory, they have access to foreign exchange at the official rate, but in practice convertibility quotas, if given, often go unfilled. They cannot buy foreign exchange at the commercial or exchange booth rates; the black market is only for cash, and is of course illegal. One remaining avenue is the commodities market, where an investor can contract with an exporter for needed imports. The exporter uses his export revenue to purchase and import the goods the investor needs, and sells the goods to the investor at a price with an implied exchange rate well in excess of the black market rate.

The changes did help representative offices, which can now exchange their dollars to cover operating expenses at the 690 soum/dollar commercial rate, and exporters, who still must sell half their foreign exchange revenues to the Central Bank at the official rate, but may now sell the remaining half at 690 soum/dollar. Thus exporters benefited from an effective 200% devaluation that cut the dollar price of their exports by two thirds during calendar year 2000, which has been enough to keep some investors afloat.

Overall, however, foreign investment in Uzbekistan has been stagnant. Statistics are available only for new investment, which was $231 million in 2000 and $201 million in 1999, according to the EBRD. Many existing investments have scaled back, however; with firms pulling out their expatriates. Legal and accounting firms have cut both expatriate and local staff.

Relations with the IMF and other International Financial Institutions

The International Monetary Fund (IMF) suspended Uzbekistan's standby program in late 1996 after Uzbekistan suspended currency convertibility. From 1997 through 2000 the IMF Resident Representative and periodic IMF missions maintained a dialogue with Uzbekistan's economic policymakers to try to persuade the government to adopt the reforms that would permit a new agreement, but there has been little or no progress. Accordingly, following its February 2001 Board meeting, the IMF decided not to replace its Resident Representative after his departure in April 2001. The IMF plans to maintain a liaison office with local staff.

In the absence of an IMF program, the International Bank for Reconstruction and Development (IBRD or World Bank) has had a $150 million/year program in Uzbekistan, but has disbursed an average of only about $65 million/year. European Bank for

Reconstruction and Development (EBRD) lending levels have dropped from a high of $153.8 million in 1997 to $47.3 million in 2000. The Asian Development Bank (ADB) was a relatively late entrant to Uzbekistan, opening its office in 1998; its lending has been increasing, but its loan approvals are also expected to level off or decline in the absence of further economic reform.

Outlook for the Future

Until Uzbekistan unifies its exchange rates and makes the soum convertible, foreign investment, IFI lending, and economic growth are likely to remain low. Unfortunately, recent government pronouncements offer little hope that a policy change will come soon. When President Karimov visited Italy in November 2000, he told reporters that it took Italy 22 years to achieve convertibility, so Uzbekistan was doing well if it only took three to five years.

Once Uzbekistan does unify its exchange rates, however, its economic future should be bright. There will still be significant investment and trade restrictions and bureaucratic red tape to overcome, but potential investors and exporters will find these challenges more manageable. Uzbekistan's potential as a center for regional growth has kept many investors in this market in very adverse conditions; with the right economic policies in place, Uzbekistan's economy should flourish.

Chapter 3 - Political Environment

Political relations between the United States and Uzbekistan are strong, and Uzbekistan cooperates closely with the United States in international fora and on foreign policy, security, antiterrorism, and anti-narcotics issues. The United States formally recognized the Republic of Uzbekistan on December 25, 1991, and opened the U.S. Embassy in Tashkent in March 1992. There have been several exchanges of senior visitors, including a Karimov visit to the U.S. and meeting with President Clinton in June 1996, and visits to Uzbekistan by First Lady Hillary Rodham Clinton in November 1998 and Secretary of State Madeleine Albright in April 2000. Uzbekistan’s relations with the U.S. have been tempered, however, by Washington’s concerns regarding Uzbekistan's slow progress on democratic reform and its human rights abuses, as well as Uzbekistan's reluctance to undertake serious economic reforms.

Uzbekistan's Constitution, adopted on December 8, 1992, provides for a presidential system with separation of powers, freedom of speech, and representative government. In practice President Islam Karimov and the centralized executive branch that serves him dominate political life. First chosen president in a 1991 election that most observers considered neither free nor fair, Karimov had his stay in office extended to 2000 by a 1995 plebiscite. Parliament subsequently voted to make the extension part of Karimov's first term, thus making him eligible to run again in 2000. He was elected to a second term in January 2000 against token opposition. President Karimov makes virtually all-key decisions in the country, appoints and removes ministers and local officials at will, and clamps down on any opposition activity.

The Oliy Majlis (Parliament) is a 250-member rubber-stamp body consisting almost entirely of regional officials appointed by the President and members of parties that support the President. It meets only a few days each year, and has little power to shape laws. Despite constitutional provisions for an independent judiciary, the executive branch heavily influences the courts in both civil and criminal cases.

Uzbekistan has come under heavy criticism for its poor human rights record, and its repression of political opposition. Election and registration laws restrict the possibility of any real opposition parties arising or mounting a campaign. There is effective civilian control over the military. The Ministry of Interior (MVD) controls the police. The police and other MVD forces are responsible for most normal police functions. The National Security Service (NSS)--the former KGB--deals with a broad range of national security questions, including corruption, organized crime, and narcotics. The police and the NSS have committed numerous serious human rights abuses.

The main political factor affecting the business climate in Uzbekistan are the country's corruption networks and complicated clan-based power structures, many of which appear to profit from the distortions in the current economic system, and therefore resist reform. Another key factor is officials' inability to make any important decisions without presidential approval.

Chapter 4 - Marketing U.S. Products and Services

A key aspect of marketing in Uzbekistan is identifying customers with access to the hard currency needed to purchases U.S. products and services. The most important aspect of doing business in Uzbekistan is the system of three exchange rates, which is discussed in Chapters 2 and 7.

Some state owned enterprises and high profile joint ventures may have access to currency at the highly overvalued official or central bank exchange rate. Some consumer goods importers may have access to the still overvalued and restricted commercial or interbank exchange rate. Some buyers may have illegal offshore accounts, or they may have their own dollars from export revenue. Others may arrange a deal in a legal swap through an exporter on the commodities market. Those transactions are based on an implicit exchange rate about 15-20% over the black market exchange rate.

Larger investment projects, approved and guaranteed by the government, provide the best opportunities for the export of machinery, equipment, parts, materials, and consumables. Since the government of Uzbekistan is interested in importing technology from abroad, it offers foreign companies tariff exemptions for equipment imports.

Distribution and Sales Channels

Underdeveloped telecommunications and transportation networks define the distribution network in Uzbekistan. This fact presents several challenges to any company wishing to distribute its products in Uzbekistan. Many agents and distributors are beginning to emerge. U.S. companies currently active in Uzbekistan prefer to use a combination of methods to get their product to market.

The following are the most widely used methods: distributing or selling the product directly; working through a country-wide distributor or agent; working through more than one local-area distributor or agent; and distributing or selling products directly from a warehouse.

Most of Uzbekistan’s population is concentrated in two geographical areas: Tashkent and the east (Ferghana Valley). U.S. consumer-product companies are advised to target their efforts first in these regions. People in Tashkent have much greater purchasing power than elsewhere in the country. The cities of Samarkand and Bukhara, which attract many international tourists, and Navoi, which is home to Uzbekistan's most successful gold mining enterprise, are also relatively affluent.

Franchising

Franchising would be very appropriate for Uzbekistan consumer industries since many business people do not have sufficient experience and knowledge in establishing their own businesses. Once again, the problem is currency convertibility. Some western companies that have opened franchise stores in Tashkent are Levi’s, Benneton, and Mother Care. Franchises with close government connections have done well by importing goods at preferential exchange rates. Others, such as Mother Care, have suffered as the government suddenly withdrew its convertibility quota after the franchisee had made a significant investment.

Joint Ventures/Licensing

There are more than 3,000 joint ventures registered in Uzbekistan, though many of these are not currently active. In most cases, local joint venture partners depend on their foreign partners to shoulder the majority of capital investment, because they often have little working capital and have difficulty getting financing from local banks. Potential foreign investors should exercise caution in selecting joint venture partners.

The law on licensing was only issued in September 2000. This law is very general and quite different from what exists in U. S. Final regulations for each sector will be developed by the relevant branch of the government. The licensing regulation in the telecommunication sector was established with participation of World Bank consultants and is close to international standards for transparency.

Direct Marketing

The process of direct marketing is growing slowly in Uzbekistan. A popular form of direct marketing is distributing free samples at points of sale, at major cultural events, and door-to-door. There are limited examples of direct marketing via television. Marketing by mail is not used.

Advertising and Trade Promotion

There are several western and local advertising firms in Tashkent. Several means of advertising are effective in Uzbekistan. Print and television are among the most popular. The Russian and Uzbek published “Bisnis Vestnik Vostoka (BVV)” and “TRUD” are the most widely read newspapers in Uzbekistan, and the best for advertising. Both carry current economic, political, and business articles of interest to the entire business community. The most popular TV channels in Uzbekistan are Yoshlar, Channel 30, ORT and TV 6. Many affluent Uzbeks subscribe to Kamalak cable television service. Radio, billboard, and transport (buses, trams) advertising are also commonly used by Western and local companies.

Uzbekistan has several trade shows throughout the year, including tourism, energy, technology, oil and gas, and mining fairs. Most of them are held at the Uzexpocenter, which is the largest expocenter in the region.

Need for a Local Attorney

The rapid pace of change and the high degree of uncertainty in the legal and regulatory environment present significant problems for foreign business in Uzbekistan. Legislation is complex and fraught with conflicting statutes. Authorities are frequently able to issue special regulations or grant permissions on a case-by-case basis. Therefore, U.S. firms operating in Uzbekistan are strongly encouraged to use a local attorney for most legal transactions.

The Commercial Service of the U.S. Embassy in Tashkent maintains a list of American, international and local law firms with permanent offices in Uzbekistan. The list of law firms in Uzbekistan is in Chapter 11.

Chapter 5 - Leading Sectors for U.S. Exports and Investment

Oil and Gas Industry

The hydrocarbon potential of Uzbekistan is quite significant: 4.4 billion tons of oil, 629 million tons of by-products and 5.4 trillion cubic meters of natural gas. More than 160 oil and gas fields have been explored, and Uzbekistan is already one of the world's top 10 producers of natural gas. All enterprises in the oil and gas industry are state-owned, and governed by the National Holding Company "Uzbekneftegaz".

By the end of 1996, Uzbekistan reached crude-oil self-sufficiency, and started development of local refineries. The oil refineries in Fergana and Bukhara have reached annual capacity of 8.6 million tons after renovation by foreign firms in 1999. The Fergana Oil Refinery Plant (FORP) Renovation project was awarded to the Japanese-owned Mitsui and Toyo Engineering Corp. and was financed by EBRD and Japanese-owned Exim Bank (over $180 million). French-owned Technip and Japanese-owned Marubeni and JGC companies constructed the oil refinery in Bukhara in 1997. Total construction project cost reached $400 million.

Uzbekistan does not have a well-developed oil pipeline system, nor interest in participation in the construction of new interstate long-distance pipelines that will connect the Central Asian oil producing states with China, Turkey and Pakistan. Furthermore, the country's gasoline distribution system is also in need of modernization. Currently there are less than 88 distribution centers and only about 800 refueling stations servicing over 1.5 million automobiles in the country. The GOU intends to improve gasoline distribution through privatization and attraction of foreign and local investors.

The aforementioned illustrates market opportunities for U. S. companies that specialize in consulting, engineering, construction, equipment supply and management in the oil and gas industry sector. U. S. companies can successfully compete with other international firms in attracting contracts in this important industry for Uzbekistan.

	1998	1999	2000
a. Total Market Size	N/A	N/A	N/A
b. Total Local Production			
- Oil (million tons)	8.8	9.5	9
- Gas (billion cubic meters)	54	51	49
c. Total Exports (1000 tons)	600	800	800
d. Total Imports	N/A	N/A	N/A
e. Imports from U. S.	N/A	N/A	N/A

The above statistics are unofficial estimates.

Electric Power Generation and Transmission

Uzbekistan is the largest electricity producer in Central Asia with total capacity of 11,200 megawatts (MW). The country achieved self-sufficiency in power generation after gaining independence in 1991. However, power-producing stations have deteriorated over the past years, and several generating units have ceased operation. The machinery and equipment in generation, transmission and distribution systems are outdated and extremely inefficient.

Renovation of the energy sector is becoming a priority for the government of Uzbekistan. The President approved a program on “Deepening Reforms in the Energy Sector” on February 2001. The program includes de-monopolization, privatization and incorporation of energy enterprises, as well as a ten-year plan for the reconstruction and development of the energy generating and delivering capacities with estimated cost over $1.4 billion. It is important to note that all receipts from privatization of energy enterprises will be reinvested in the sector.

As it is rich in natural resources, Uzbekistan has potential for U.S. companies with business experience in the energy sector. There exist several projects directed by foreign contractors or equipment suppliers in the sector, such as the construction of the Syrdarya Thermal Power Station. The EBRD has allocated a loan of $30 million in which Siemens won the tender for reconstruction of two (out of ten) turbines of the mentioned Power Station. Another German Company, “ABB Kraftwerker Berlin”, together with its local partner were awarded the tender for repair of steam turbines, pumping equipment and generators at the Novo-Angren Power Station.

	1998	1999	2000
a. Total Market Size (US$ million)*	N/A	N/A	1,400
b. Total Local Production (GWh)	47,900	48,000	47,200
c. Total Exports (GWh)	1,000	1,000	1,000
d. Total Imports	0	0	0
e. Imports from U. S.	N/A	N/A	N/A

* The market for the equipment imports

The above statistics are unofficial estimates.

Mining (MIN)

Uzbekistan is also rich in mineral resources. A positive legacy of the Soviet Union is the existence of detailed exploration data and a well-developed mining infrastructure, especially in the mining of gold, uranium, and coal. In addition to these minerals, Uzbekistan produces natural gas, silver, zinc, wolfram, lead, sulfuric acid, feldspar, cadmium, molybdenum concentrate, kaolin, and others.

Uzbekistan is the world's ninth largest producer of gold with an output of about 70 tons per year. The country is believed to have gold deposits in excess of 5,000 tons. There are approximately 40 deposits of gold, producing gold ore extracted from ten different mines. Uzbekistan's Muruntau mine located in the Kyzylkum desert in central Uzbekistan is the world's largest open-pit gold mine. The Uzbek government plans to increase gold production to 126 tons annually by 2015.

Other minerals are significant to the Uzbek economy as well. Annually, about 2,200 tons uranium, 80,000 tons copper, 31,000 tons zinc, 150,000 tons silver, 18,000 tons lead, tungsten, bismuth and molybdenum are produced. There are 98 deposits of various metals present in Uzbekistan. Uzbekistan is the world's fifth-largest producer of uranium, which is entirely exported.

The Uzbek State Committee on Geology and Mineral Resources takes a leading position in carrying out exploration. The Navoi Mining and Metallurgical Plant is the largest mining company in the country, producing over 90 percent of the gold and all of the uranium. The second largest mining company is the Almalyk Mining and Metallurgical Plant, which is the primary producer of copper, as well as by-products such as gold, silver, lead, zinc, etc. The Joint Stock Company "Komyr" (Coal) is the leading producer of coal from three mines, including Angren, the largest open pit mine. Uzbekistan produces about 4 million tons of coal annually.

The mining industry in Uzbekistan is open to foreign investors and offers challenging projects to any interested foreign investors. Newmont Mining is the first company to have invested in the sector, with its US$250 million investment in a joint venture reprocessing ore from the Muruntau gold mine. The Newmont-Zarafshan JV has a special arrangement by which it receives half the gold it produces and exports, making it the most successful JV in Uzbekistan. Other foreign mining companies active in Uzbekistan include Oxus Resources, which has announced its intention to develop non-ferrous metal deposits, and Cogema, which is working with Navoi mining company on the production of uranium.

Food Processing and Packaging (FP&P)

Given its size and enormous growth potential, Uzbekistan's food processing and packaging industry holds the most potential for U.S. investors and represents one of the best prospects for exports.

Agriculture, which dominates Uzbekistan's economy, continues to be one of the highest development priorities of the GOU. The government has increased the amount of land dedicated to grain production in an effort to reduce Uzbekistan’s dependence on food imports. Land under cultivation increased from 1.3 million hectares in 1995 to 1.7 million in 1996 and the government hopes to eventually achieve food self-sufficiency through gradual farm privatization and a variety of agricultural reforms.

Uzbekistan has the potential to develop into one of the major food exporters among Central Asia and NIS countries. Therefore, demand for sophisticated, high-tech packaging and processing equipment may greatly expand. Currently food processing and packaging equipment and technology is very antiquated. Packaging in Uzbekistan was not developed previously, because previously the packaging industry was disbursed throughout the former USSR. During Soviet times, food processing companies which needed packaging equipment or materials could get it from other republics of the USSR. After the break-up of the USSR, Uzbekistan was left with only a small packaging industry, which was geared towards chemical packaging, not food packaging.

Even though a considerable amount of food is processed in Uzbekistan, it is still below Western standards in terms of packaging, shelf life, hygiene, and nutritional value. Most Western food products have more prestige than ones produced locally. An aggressive advertising campaign has helped capture the market very easily. Local food products are advertised, however, the quality and marketing strategies are frequently ineffective. Nonetheless, economic reforms and the process of integration into the world economy require local food processors to raise the standards of their product to world levels. The GOU together with the EBRD, World Bank, Asian Development Bank, USAID, and TACIS, is putting greater emphasis on agricultural reforms to improve the long term potential of the agricultural and food processing sectors.

	1997	1998	1999
a. Total Market Size (US$ million)*	n/a	51.6	n/a
b. Total Local Production (US$ million)	n/a	1.1	n/a
c. Total Exports (GWh)	0	0	0
d. Total Imports	50	n/a	n/a
e. Imports from U. S.	0	0	0

* The market for the equipment imports

The above statistics are unofficial estimates.

Textile Machinery and Equipment (TXM)

Uzbekistan is the world's fourth largest producer of cotton and it sales account for roughly 48% of the country’s exports. Uzbekistan produces 1.4 million tons of the cotton fiber and 90 thousand tons of the cotton yarn annually. GOU has been trying to create better conditions for investments into the textile industry, understanding that it is one of the most vital industry sectors. Despite its many problems, the textile industry produced over $500 million of textile products in 1999.

In recent years projects with funding from foreign companies have been successful in constructing modern cotton processing facilities. Major projects were:

- $194 million project implemented by Korean Kabul Textiles (37,000 tons of cotton yarn and 24 million. m2. of fabrics);
- DM 40.4 million project with Turkish “Astop” (3,000 tons of cotton yarn), and
- DM 42.12 million project with Turkish “Tekfen” (4,000 tons of combed yarn).

Local textile factories can process only 12-15% of the cotton fiber produced in the country due to lack of modern facilities, technologies and the low level of management and marketing skills in this sector. Most mills in Uzbekistan still use outdated machinery with low-grade technology developed 10 to 20 years ago. Uzbeklegprom (Uzbek State Association for production of light Industry Goods) is now working on a long-term strategy program for the textile industry. The program will require an investment of over one billion US dollars and the privatization of the industry sector. The premise of this program depends on hard currency profits from the export of raw cotton, which is inherently less than the profit from textile export.

The low cost of labor, production and utility are the main incentives for textile machinery exporters. Despite the active presence in the marketplace of the Turkish, Japanese and Korean textile companies, US exporters of textile machinery and equipment still have tremendous opportunities. The textile industry is one of the Uzbek government’s priority sectors, which represents potential opportunities for sales of textile equipment and machinery in Uzbekistan.

Currently Uzbeklegprom is working closely with the National Bank of Uzbekistan for Foreign Economic Activity to replace old equipment in existing mills in Bukhara, Tashkent, and Namangan. New machinery would substantially strengthen enterprises and replace products traditionally imported from Turkey, China, India and Pakistan.

Computer Hardware and Peripherals Market (CPT)

The local computer market has potential. Local computer specialists estimate the total market size as USD 30-40 million. The demand for information technology (IT) products is huge, but the majority of the population has yet to be able to afford a PC due to high prices. The following factors continue to keep IT prices high: hard currency convertibility problems, high duties and tariffs on imported equipment, and low purchasing power.

Recent market surveys have shown that most small and medium size companies have an average 10–15 profit margin from overall sales. There are more than 200 small and medium size computer companies in the Uzbekistan computer market, including individual businesses working on a local license. Approximately 10 per cent of hardware companies work successfully as distributors or partners of US companies.

IT market specialists estimate that between September 1999 and April 2000, more than 60 per cent of the market shifted from medium and large companies to private entrepreneurs. The practice of lowering the prices of imported goods by customs plus the well-used practice of smuggling computer equipment through the unofficial channels gave individuals an undue advantage over larger companies in the market.

The lowest priced, locally assembled computer costs USD 450. There are no statistics on the number of PCs in Uzbekistan. However, estimates based on CS Tashkent conversations with manufacturers shows a figure that does not exceed 350,000. This is a very low estimate for a country with 25 million inhabitants.

An average computer company sells 100 to 150 PCs monthly. Most large contracts go to corporate clients. Hewlett Packard is a leader in PC and peripherals market. The most popular processor is Celeron-600 MHz. The price for Pentium III-based computers depending on options varies from USD 800 to USD 2, 500. AMD processors still cannot compete price-wise with Intel products. The leading computer brand names are DELL, IBM, HP and Compaq/Digital, but most companies and individuals purchase non-brand-name computers due to the cost benefit.

Most PC owners reside in Tashkent. Other regional cities with high computer density include Samarkand, Bukhara, Fergana, and Navoi. Based on local computer statistics, Fergana Valley cities are buying more computers. The major barrier for a countrywide increase in the purchase of computer equipment is the low purchasing power of Uzbek citizens. When asked, many people indicated that they would buy a PC if the average price would drop to USD 300.

Based on a review of Uzbek computer companies, the following new trends exist in domestic information technology market: multimedia computers, business network integration and turnkey solutions, network equipment, and refurbished computer parts.

Despite a recent fall in computer sales, domestic computer company specialists highlight these areas for further growth:

- corporate purchases by major GOU institutions and agencies;
- increase in regional sales;
- small and medium businesses;
- personal computer users.

Internet Development

The growth of Internet services has been significant over the past year. The number of Internet users increased exponentially; according to local estimates there are 20,000 users. The number of Internet service providers (ISP) grew to 39 companies. Internet cafes are rapidly spreading throughout Tashkent and Samarkand. There are several local web-shops projects, which operate mainly on cash-on-carry basis. Over 1,000 local web sites are registered on the world-wide-web. Over 30 per cent of them belong to the state and noncommercial organizations, 45 per cent are commercial sites, 10 percent are information sites and 15 per cent are entertainment or other sites.

Uzbekistan has chosen the so-called Chinese method of Internet development by implementing severe restrictions over political and opposition web-activities. After the 1999 creation of UZPAK, the major Internet clearinghouse and data network provider, all ISPs had to be re-registered with UZPAK. Since this decree, ISPs can provide services only through UZPAK lines. Only Naytov, a US company, has been able to maintain its independence from UZPAK.

UZPAK controls ISPs within Uzbekistan. However, with dramatic growth in the local Internet network, UZPAK simply does not have sufficient capacity to control the spread of the World Wide Web. Many ISPs use a two-channel effect when they manage to send information through UZPAK provided channel, but use their own dish for uploading information. There have been several reports in the western press about the strong GOU censorship over the local web-net. While admitting the serious infringement of basic rights for freedom of expression and right for privacy, we should emphasize that based on the opinions of local computer experts, UZPAK can not control all Uzbek web-sites with the existing equipment capacity. UZPAK uses filtration and tends to censor e-mail, there are cases when internet users were harassed and warned about the use of certain prohibited web sites, namely Islamic fundamentalist and terrorist sites, and Uzbek opposition sites. The UZPAK official standpoint is that every country has the right to protect its security and national interests. On the other hand, there have been cases where UZPAK could not trace the network intruders, which used its client's accounts. Currently, UZPAK has several problems: lack of professional personnel, insufficient telecommunication equipment base and lack of transmitting capacity.

In February 2001, the government of Uzbekistan confirmed the feasibility study for the project of modernization and development of the national data transmission network. The project will be carried out in three stages within five years. During the first stage, a central switchboard will be set in Tashkent and link the national network to international and local information networks, including the Internet. This switch will operate the network and ensure information protection. The second and third stages include installation of regional switchboards forming a single inter-regional network. The project will support a 20-fold increase of the volume of information transmission services in the country, with the number of users growing by approximately 11.8 times.

It is estimated that the total number of registered network users in Uzbekistan is over 10,000. At the same time some experts assess prospective capacity of the Internet market in Central Asia at 200,000 users. 75,000 of those are located in Uzbekistan.

According to the Uzbek Post and Telecommunications Agency, currently 39 companies in the republic have been granted licenses for data transmission services, of which 19 are commercial, 15 providers work in Tashkent and the rest cover other regions. The major ones include: UZPAK, Naytov, Uznet, Eastlink (currently updating its license) CCC, Globalnet, BCC and others. Local ISPs provide the following range of services: dial-up, leased-line connections, e-mail, DNS service, and web-design. One of the new trends in the development of Internet services is radio Ethernet (RE) technology. RE technology is better quality solution for Internet clients. In partnership with US-based Wincom technologies, Sarkor telecom has been successful in introducing radio Ethernet projects throughout the city.

The major problems faced by domestic users are low connection speed and high tariff rates. As more and more regions acquire new digital telephone equipment and fiber optic channels, the quality of Internet connection is expected to gradually improve.

Statistics show that the average age in Uzbekistan is 24. With a country of more than 24 million inhabitants, Internet potential is enormous. An example of this is the dramatic growth of Internet cafes in Uzbekistan. There are more than 20 Internet cafes in Tashkent. Besides Internet access, city web-cafes have many additional services, including computer games, copying services, and computer processing. With an entrance fee ranging from UZS 500 to 1500, half of them report 400-500 monthly users. Many cafe owners tend to open Internet cafes in the center of the city or closer to universities and other educational centers.

E-commerce in Uzbekistan should be viewed in the long-term perspective. However, there are several major reasons preventing quick e-commerce development:

- Lack of a legislative base
- Lack of a credit card system
- Cautious approach towards banks among the population
- Low Internet literacy

On an optimistic note, there are niche opportunities that should not be underestimated. Recently local firms have developed several web-shop projects. The larger ones were created by zeppelin ltd. (www.zeppelin.uz) and lex-group (www.ippoex.com). Most of web-shops provide a cash-and-carry system and specialize in fast food, flowers, electronics, and home appliances. According to the owner of zeppelin.uz, he sees e-commerce as the next phase; the company wants to educate the general population regarding e-commerce and the Internet.

Telecommunication Equipment and Services (Tel/Tes)

The Uzbek telecommunications industry is gearing up for the new era. UAPT dominates the country's telecommunications market. After adopting the national program for the development of Uzbekistan’s telecommunication network in 1995, the GOU has moved forward in an effort to privatize Uzbektelecom, its national telecom operator. This was a direct attempt to increase western investment in the country’s growing telecommunication sector. The privatization of Uzbektelecom and further modernization of the telecom sector are other positive indications in the IT market.

The Asian Development Bank (ADB) and the European Bank for Reconstruction and Development (EBRD) will invest $100 million in a loans-for-equity deal, which is aimed at the privatization of Uzbektelecom. A memorandum of understanding had been signed with the two organizations, under which both receive a share packet in return for the loans. A 51 percent stake is due to be sold to a foreign strategic investor by April 2001. It is designed to achieve 70 percent privitization. UAPT is hopeful that the EBRD’s involvement will boost investor confidence in Uzbektelecom. Under these terms, both EBRD and ADB will receive shares in return for two USD 50 million loans. German Commerzbank AG, a newly appointed financial advisor, will determine the amount of shares to be allocated.

According to an UAPT official, Uzbektelecom may soon receive the exclusive rights to international telecommunications. This agency intends to issue an operating license to the company by the end of this year. Uzbektelecom is looking for a strategic investor supported by the International Bank for Reconstruction and Development. The Uzbek State Property Commission will soon determine an international financial consultant to oversee the sale of 51 per cent of Uzbektelecom.

Wireless communications is the fastest growing telecom market segment. Despite the existing economic challenges in Uzbekistan, wireless communications provide a high level of profitability, low capital costs, and quick return of invested capital. Experts estimate the number of users of wireless communications will gradually increase. According to officials the number of cellular phones in Uzbekistan should reach 150,000 by the end of this year. Extensive market research projects estimate that the total size of the cellular telephone market will reach at least 300,000 users. Currently, the Uzbek wireless systems market is divided between the following segments:

- cellular systems – 80 per cent
- paging systems – 15 per cent
- conventional and trunk – 5 per cent

According to the latest statistics, the number of subscribers of cellular services in Uzbekistan is approximately 90,000. The existing number of subscribers lags far behind average indicators worldwide. In its recent report, the Uzbek post telecommunication agency shows there is only 1 mobile phone per 1,000 people. Most cellular service users are Tashkent residents (0.4 per cent of the city's total population). Samarkand, the second largest city of Uzbekistan, is at full capacity. The next most promising region is the Fergana Valley with approximately 3,000 subscribers. Chirchik, Yangiyul, Gulistan, Djizzak, Bukhara have only about 800 subscribers each. However, it is projected that these markets will grow considerably over the next 2-3 years. Cellular markets with the greatest potential are Navoi and Kashkadarya. These two regions have the highest rates of development in Uzbekistan. It is expected that each market may consist of approximately 1,000 – 2,000 users.

For the majority of the population, cellular services are still prohibitively expensive. Local cellular companies offer two standards: GSM-900 and AMPS/DAMPS. There are a few prospective projects on channel division multiple access (CDMA) development. However, this standard at present covers only a small percentage of the market. There are four companies using a GSM standard and two operators provide AMPS/DAMPS services. The majority of the wireless equipment is imported from the United States, European Union and Asia. The three domestic enterprises involved in manufacturing telecommunications equipment, JV Aloka Daewoo, JSC Promsvyaz and SPKB, do not produce wireless equipment. In September 1999, Motorola opened its representative office in Tashkent, expanding its operations throughout Central Asia. Motorola wireless equipment is widely used by domestic cellular and paging companies. Last year an Uzbek-Turkish joint venture, UMT-Radio, officially opened. This is the first company in Central Asia to produce Motorola GM and GP series radio-stations.

The range of cellular services and prices varies widely. Existing competition among cellular providers is strong, which results in a significant decrease of tariffs on communications services and installation. This, in turn, allows the number of potential customers to expand.

Telecom specialists project the following increase in subscribers over the coming years:

Year	number of subscribers in Uzbekistan
1999	50,000
2000	80,000
2001	112,500
2002	168,750
2003	253,125
2004	379,688
2005	569,531
2006	854,297

Best prospects

UAPT foresees the further development in the following areas:

- CDMA for rural areas. GOU plans to simplify procedures for the issuance of licenses for the CDMA operators. UAPT wants to provide exclusive rights to private businesses to develop this segment of the telecommunication market.
- Payphones project. UAPT recently signed a letter of intent on supply of pay phones in Tashkent and Tashkent region.
- Prepaid telephony. US CPDI Company works with the Samarkand Telecom on an order for pre-paid telephone platform for the Samarkand telephone station, enabling domestic subscribers to use pre-paid phone cards.
- Data transmission and Internet networks. Recently UAPT signed an agreement with SITA Inc. for the provision of Internet services using SITA existing network.
- Mobile communications. There is a strong preference for UAPT to work with foreign companies on further distribution of its frequency specter in 1800 MHz.

AIRCRAFT/AIRPORT/GROUND SUPPORT EQUIPMENT (AIR, APG)

As one of two doubly land locked countries in the world, Uzbekistan has made significant effort to develop its airline industry. Dependency on railroads to connect Uzbekistan to the northern regions of Russia, and underdeveloped highways make air routes attractive. After Uzbekistan's independence, Uzbekistan Airways National Air Company (NAC) started flying to 28 destinations in America, Europe and Asia, 30 destination in the CIS alone. It has opened 36 offices abroad.

Since 1992, Uzbekistan Airways having a fleet of predominantly Russian aircraft made a huge investment to upgrade its aircraft fleet by acquiring 5 Boeings, 3 Airbus-310, and 3 RJ-85s. NAC has recently signed a new contract with Boeing Corporation to purchase 2 more Boeing aircraft.

Tremendous investments have been earmarked to upgrade not only the aircraft-fleet but to develop its airports and ground infrastructure as well. Uzbekistan is the only country in the CIS that has a state of the art air-traffic control system built by Thomson-CSF, French company and is currently implementing the second stage of this project. Alenia Marconi Systems (Italy) signed a contract last year to supply three electronic air traffic controlling systems for USD 30 million for installation in three airports in Uzbekistan. German Lufthansa helped to improve the runways at Tashkent Airport. For 28 million DM, 120 units of ground support equipment from German manufacturers have been purchased with the financial assistance of German KfW in 2000.

Uzbekistan Airways operates not only the airline but also all 12 airports in Uzbekistan. The Japanese Foreign Economic Cooperation Foundation has actively supported the modernization of Uzbekistan's three main airports and lent 15.2 billion yen in 1996. The Japanese government earmarked additional funds for the second stage of this project. Until recently Tashkent Airport was the only airport with international status. Now, three more airports in Urgench, Bukhara and Samarkand were granted international status and are able to accept large aircraft such as Boeings 767's and Airbus 300s.

The Uzbek government has invested $1.2 billion to develop its airline industry, and become one of the leading airlines in the CIS. Uzbek Airways is one of the companies paying a great deal of attention to the safety of airlines and earned the reputation of the safest airline in the CIS. Aircraft maintenance plant N-234 was allowed to conduct A and C check on western aircraft. Uzbekistan intends to further develop its airline industry and therefore presents tremendous opportunities for US aviation companies.

Chapter 6 - Trade Regulations and Standards

Import/Export License Requirements

The Government of Uzbekistan restricts imports by means of a system of import contract registration that severely limits the availability of foreign exchange. In 1996, the government of Uzbekistan was well on its way to creating a convertible currency. However, an overvalued official exchange rate and export revenue shortfalls caused by poor harvests that year inspired the Government of Uzbekistan instead to tighten the earlier system of foreign exchange quotas. Since then, the Government of Uzbekistan has periodically made the system yet more restrictive, stemming the outflow of reserves by severely compressing imports. Surveys of foreign companies consistently conclude that currency restrictions are the worst of many serious obstacles to doing business in Uzbekistan.

Convertibility Quotas

In 1998 the number of importers given convertibility quotas was cut by one third, and the remaining two-thirds saw their quotas slashed in half. Observers estimate that a further one-half of those firms that still had convertibility quotas in 1998 had lost them by the end of 1999. The few firms that retained quotas reported that, in practice, they were rarely permitted to convert their soum earnings into hard currency.

In 2000, the trend continued. On July 1, consumer goods importers lost their access to the very preferential commercial exchange rate, and were moved to a new, fixed exchange booth rate for their transactions. This represented a 170% devaluation. In addition, tariffs, previously assessed on the soum value of the goods at the commercial exchange rate, were now assessed on the value at the new rate, which increased tariffs 2.7-fold. Even at the new rate, however, the government continued to squeeze consumer goods import quotas: importers with quotas of $100,000 or less lost their quotas, and the government continued through the autumn to prune the ranks of the select few remaining quotaholders.

Import Contract Registration

In addition to foreign exchange quotas, the government also uses an import contract registration system to enforce Uzbekistan's import substitution development strategy and lower overall imports. The system aims to ensure that scarce foreign currency is used primarily to import capital rather than consumer goods.

Foreign companies or foreign joint ventures importing capital goods with their own funds held outside Uzbekistan are also subject de facto to the import registration system. Although a 1998 presidential decree exempts such cases from the registration requirement, foreign businesses report that their Uzbek bankers strongly recommend that they register anyway.

Customs

Once over this hurdle, imports face the next: the State Customs Committee. Customs clearance is a tedious and capricious bureaucratic process. Even capital equipment imports for U.S. Uzbek joint ventures are subject to substantial processing delays and often remain in customs for two to three months, incurring hefty storage costs. Delays affect all imports, as there is no procedure for releasing goods under bond. To avoid these problems, many firms contract for pre-shipment inspection (PSI), which does reduce customs clearance delays. Arbitrary seizures of goods, or seizures based on ex-post-facto application of new laws or regulations, are not uncommon.

Import Tariffs

Although Uzbekistan's tariff rates have not been extreme by international standards, its excise taxes form an effective barrier to the legal importation of certain goods. An August 23 2000 Cabinet of Ministers Resolution introduced new excise taxes of 10-45% on eleven categories of imported goods, including consumer electronics, detergents and lubricants, the latter two of which are produced by local joint ventures. The excise tax schedule discriminates against imports of goods subject to the tax. Imported liquor, for example, is subject to an excise tax of 90%, whereas the rate for domestically produced spirits ranges from 40% to 65%. Moreover, the government uses a method of calculating excise taxes specific to imported alcohol and tobacco, which results in an actual excise assessment many times higher than the nominal rate.

Standards, Testing, Labeling and Certification

Uzbekistan continues to use an arbitrary set of technical standards based on outdated Soviet methods. Despite regulations to the contrary, customs officials routinely reject foreign certifications of conformity to these standards. Perishable goods are subject to burdensome phytosanitary tests, making it difficult, for example, for restaurants and hotels to use imported foodstuffs. Customs officials often take excess test samples of goods subject to technical standards for their own use.

There are three joint ventures that perform price verifications and otherwise assist in import contract registration. One of these, Intertek Testing Services, is also accredited to perform pre-shipment inspection (PSI) to verify the quality of contracted goods. Only tobacco and alcohol are currently subject to mandatory PSI, but importers may choose to subject other goods to PSI. A December 1997 decree requires the Ministry of Foreign Economic Relations to approve import contract registration of pre-inspected goods within two days. Anecdotal reports from those doing business in Uzbekistan indicate that the decree has succeeded in accelerating the clearance of pre-inspected goods.

Membership in Free Trade Agreements

Uzbekistan has applied for membership in the World Trade Organization (WTO), and submitted its Memorandum of Trade Regime November 1998. The government has made a number of changes to its customs, IPR and tariff regimes to bring it into WTO compliance, but it still faces a long road to entry. As a member of the CIS, Uzbekistan's exports to Russia enjoy duty-free status, giving Uzbekistan access to the large Russian market.

Export Policies and Controls

The government centralizes the export of certain commodities, such as gold, cotton, and petroleum; non-centralized exports of these products by investors is permitted only by Presidential Decree. Restrictions also apply to the export of many foodstuffs. The export of subsidized products, such as flour and sugar, is prohibited.

Contrary to WTO standards, the government of Uzbekistan grants some tax benefits, such as tax holidays, for Uzbek or foreign joint venture exporters. A July 5, 2001 Presidential Decree exempts most exporters from profit taxes on their exports, and exempts them from property tax if they export over 50% of their production.

But these tax benefits only partially offset the de-facto tax that exporters pay through the hard currency surrender requirement. At the beginning of each quarter, exporters must each surrender 50% of their projected earnings of hard currency for conversion to soum at the official exchange rate. Since the government and not the firm projects these earnings (on the basis of the previous year's receipts), the surrender quota could amount to more than 50% of real earnings if export volumes or prices drop. Banks are required to convert all earnings as they come in each quarter until the government-determined quota is met. This feature deprives firms of access to their own supply of hard currency for lengthy periods. Finally, since the official exchange rate is about a third of the actual market rate, the conversion requirement means that exporters must increase prices to compensate. This amounts to a tax on exports and hurts Uzbek competitiveness in world markets.

Government Procurement

There is no systematic approach to government procurement in Uzbekistan. Instead, procurement decisions are made in a decentralized and ad hoc manner. Often the procurement practices of the central government are similar to those of many countries, with tenders, bid documents, bids and a formal contract award. However, many tenders are announced with suspiciously short deadlines and are awarded to insider companies. A draft Government Procurement Law produced in mid-1998 by an inter-ministerial working group with support from a USG-provided advisor has yet to be submitted to parliament. Uzbekistan is not a signatory of the WTO Agreement on Government Procurement.

Service Barriers

The largest barrier to foreign services firms entering the Uzbek market is difficulty in converting the currency. For example, insurance companies must collect their premiums in soum and may not pay reinsurance premiums in hard currency on the world market. Likewise claims may only be paid in soum. These provisions can only be overcome by a special presidential decree granting the company the right to do business in dollars. To date only a state-owned insurance company, Uzbekinvest, and an American-Uzbek joint venture, UzAIG, have that permission.

Intellectual Property Rights Protection

The 1994 bilateral trade agreement between the United States and Uzbekistan incorporates provisions on the protection of intellectual property rights (IPR). In 1996 Uzbekistan undertook a comprehensive revision of its copyright law, but significant deficiencies remain in Uzbekistan's IPR regime. For example, Uzbekistan does not provide protection for pre-existing works. No protection at all is provided for U.S. sound recordings, since Uzbekistan is a member neither of the Berne convention nor of the Geneva Phonograms Convention. In addition, Uzbekistan does not provide for civil or criminal ex parte search procedures needed for effective anti-piracy enforcement. In its December 2000 session, the Uzbek parliament made some changes to the copyright law, which may alleviate some of these problems, and also added trademark protections.

With respect to enforcement, Uzbekistan needs to adopt even greater reforms. The fact that the state-owned Uzbek airlines shows pirated U.S. films in flights to the United States and elsewhere is emblematic of the government's disregard for intellectual property rights. On the streets, pirated audio and videotapes and compact disks are sold freely.

Chapter 7 - Investment Climate Statement

A.1. Openness to Foreign Investment

The Government of Uzbekistan has created favorable conditions for a very few showcase foreign investors, but the overall investment climate is poor. Uzbekistan has the potential to be a regional economic powerhouse, but, while the Government of Uzbekistan (GOU) in principle seeks foreign investment, it has yet to create the necessary conditions to attract the investment it needs. The GOU actively courts foreign investment in productive capacity, and provides significant tax benefits to such undertakings, particularly if the production in question is for import substitution or for export. But severely restricted access to foreign exchange, cumbersome banking procedures, and other bureaucratic problems discourage investment. Moreover, the Government has not grasped the importance of predictability and transparency to foreign investors. It often unilaterally revises the conditions under which investments are made, leaving investors with little recourse.

Independence came to Uzbekistan with the breakup of the Soviet Union in 1991. The GOU is still in the process of considering, drafting, enacting and implementing the legislative framework necessary to support business development. Because of the shortage of legal drafting skills, and lack of transparency in the legislative process, even laws developed with the help of foreign advisers emerge with many changes from the original draft, creating new problems even as they resolve old ones. Uzbekistan's 1998 Law on Foreign Investment is no exception. The GOU's tendency to legislate by decree further complicates the situation; the result is a internally incoherent and arbitrary structure, rather than the stable framework a foreign investor expects.

Larger companies usually address this problem by seeking a Presidential or Ministerial decree that lays out the privileges and responsibilities of all the parties, and provides exceptions to any problematic or unclear legal provisions. Obtaining such decrees, however, is an expensive, time-consuming and non-transparent process. Accordingly, smaller foreign companies must take the structure as it is; they often approach the problem by engaging in a joint venture with an Uzbek partner, often a state-controlled enterprise. Furthermore, because these special decrees for investors are generally secret (even from the investors themselves), or have secret provisions, it is impossible for investors to determine whether they are receiving fair treatment or whether their competitors have a more favorable decree.

Investors also seek to have their projects included in the GOU's National Priority Investment Program. Projects included in the program generally get preferential access to foreign exchange as well as additional tax benefits and a smoother path through the bureaucracy. Again, however, the process by which projects are included in the program is not transparent. Many of the projects on the list are public infrastructure project for which debt (IFI) rather than private equity financing is sought.

The GOU seeks big-name strategic investors, especially in those fields the government considers underdeveloped and wants to expand. The fields currently targeted are manufacturing, telecommunications, mineral extraction, oil and gas, textiles, apparel and food processing. The GOU is eager for foreign technology and aims to develop a manufacturing base for import substitution. Through joint ventures, Uzbekistan assembles Korean automobiles and American and German agricultural equipment, and manufactures cigarettes with a British partner. Joint ventures with Swiss and American firms are also active in food processing and packaging. A number of manufacturing JVs, most prominently with the Korean firm Daewoo to produce consumer electronics and telecommunications equipment, have closed, however, due to currency convertibility problems.

Uzbekistan's outdated legal and regulatory framework is particularly noticeable in the mining and oil and gas sectors. Draft petroleum legislation to allow for Production Sharing Agreements has languished for over three years without being submitted to Parliament. As an interim measure to attract investment, the GOU enacted a decree in May 2000 that provides some tax breaks to investors in the sector, but does not address the basic legislative inadequacies. The current mining regime is a Soviet era law on subsoil; U.S. mining companies are advocating a concession law.

There is no discrimination against foreign investors at the time of the initial investment. In fact, foreign investors often receive tax holidays and duty-free capital goods imports unavailable to local investors. After the investment is made, the major discrimination foreign investors face is the requirement that foreign citizens pay for various services, including air travel, hotels, and telecommunications, in dollars rather than the local currency, soum. While in theory this requirement applies only to individuals rather than corporate entities, in fact it prevents the entities from using their inconvertible soum to cover many expenses of their expatriate staff.

Foreign investors do face all the same bureaucratic processes that plague all businesses in Uzbekistan, such as business registration, import contract registration, and licensing and customs delays. For example, business registration must go through the Ministry of Justice, the State Tax Committee, the Ministry of Foreign Economic

Relations (MFER) and the appropriate state organization for macroeconomics and statistics; there is no one-stop shop. This process is not transparent; an investor's application can be deferred indefinitely. All import contracts must be approved and registered by the MFER, unless the company uses its own hard currency, in which case, in theory if not in practice, MFER approval is not needed. Customs procedures can take as long as four months, thereby imposing storage fees on the importer. No priority is given to perishable goods.

One potentially significant benefit for foreign investors is the Ten-Year Guarantee, which claims to protect investors against adverse legislative or regulatory changes for the first ten years of their investment. In practice, however, attempts by foreign investors to apply this protection against adverse changes such as tax increases or changes in the foreign currency regime have proven fruitless.

In a promising step, the GOU entered into a dialogue with the American Chamber of Commerce in Uzbekistan (AmCham) to address investment issues and proposed solutions raised by the AmCham in an issue paper prepared for the U.S.-Uzbekistan Joint Commission in May 1999. In August 1999 the AmCham received a detailed GOU response to its paper, and, since then, a series of AmCham working groups on customs, taxes, business registration, convertibility and the surrender requirement, natural resources, arbitration rights, and banking restrictions developed detailed position papers on each of these issues, and discussed them with the relevant GOU officials, usually at the deputy minister level. While the GOU has expressed strong interest in this dialogue, it has yet to bring substantial results.

The GOU has a privatization program, but in the current investment climate it has failed to attract serious foreign interest. An aggravating factor is the GOU's reluctance, in most cases, to give foreign investors even the 51 percent of shares needed for day-to-day operational control, let alone the 76 percent required under Uzbekistan's corporate law for serious restructuring. Under the GOU's program, which is supported by a World Bank loan, large companies are being developed for case-by-case privatization, while many smaller ones are being privatized through a series of auctions, during which shares are offered to a number of private investment funds (PIFs). Foreigners are encouraged to purchase these shares, and a 1998 decree guarantees that proceeds from shares held for at least one year may be converted back into foreign exchange. The lack of a secondary market has impeded trading in these shares, however.

A.2. Conversion and Transfer Policies

The difficulty in converting the local currency, the soum, into foreign exchange is, for most foreign investors, the single greatest obstacle to doing business in Uzbekistan. The official exchange rate stood at about 290 soum/dollar in August 2000, but demand for dollars at this rate far exceeds supply. Most transactions are implicitly calculated at the black market rate, about 800 soum/dollar in August 2000.

For a brief time in 1996, the soum was convertible, albeit at an unsustainable exchange rate. But in the fall of 1996, the GOU, faced with low export earnings due to a poor cotton harvest, and an increased import bill due to a shortfall in its wheat harvest, issued a series of decrees that effectively suspended convertibility. Since then, access to foreign exchange at the official rate has been severely restricted. Even the companies lucky enough to have a foreign exchange quota must apply each month to get their soum converted. Since real interest rates on soum accounts are negative, the value of investors' money awaiting conversion decreases steadily. Many investors wait a year or more for conversion, if they receive it at all. The curb or black market for foreign currency is active, but illegal.

In the summer of 1998 President Karimov pledged to sign IMF Article VIII, which would entail unifying Uzbekistan's exchange rates and making the soum convertible, in 2000. A growing recognition among GOU officials at all levels of the need to restore convertibility led to optimism that convertibility would indeed come in 2000, but signals from the GOU have been contradictory. First, effective April 1, 2000, non-residents of Uzbekistan must pay for most major services in hard currency rather than soum. Virtually all foreign citizens resident in Uzbekistan are defined as non-residents. This GOU declaration of lack of confidence in the soum indicated desperation for hard currency, and cast severe doubt on the Government's intention to fulfill the President's pledge.

On May 1, the GOU devalued the official rate, then at 149 soum/dollar by 54% to merge it with the old commercial rate, then at 225 soum/dollar. Then, on July 1, the GOU established a new, limited exchange booth market. Anyone may sell dollars and buy soum on this new market, but only licensed consumer-goods importers, and persons traveling abroad, may purchase dollars, and even those transactions are strictly limited. Most importers of consumer goods must now purchase dollars at this new exchange rate. The exchange booth rate was initially set at 675 soum/dollar (to sell dollars) and 690 (to buy dollars) to compete with the curb market rate, then at about 650 soum/dollar. The GOU claims that the exchange booth market rate is set by supply and demand, but for many months it remained stuck at 675 and 690 in accordance with Central Bank "recommendations" while the value of the soum on the curb market slid past 800 soum/dollar. In early 2001 the GOU began depreciating that rate rapidly, but in March 2001 kept it at 793 soum/dollar for a number of weeks, and then even appreciated it to 785 soum/dollar, where it remains as of April 2001.

The chart below summarizes Uzbekistan's exchange rate history.

	1996 avg.	1997 avg.	1998 avg.	1999 avg.	5-01 2000	7-01 2000	2000 avg	4-15 2001
Official Rate (govt transactions)	40	67	95	136	149	255	240	342
Old Commercial Rate (commercial, tourist)	45	72	104	157	225		460	690
Exchange Booth Rate						675	462	785
Curb Market	63	151	228	462	710	665	776	910

While the GOU has justified exchange controls as a means of channeling Uzbekistan's foreign exchange reserves into investment in high priority sectors, even priority manufacturing companies report significant obstacles to their operations. Some investors have been forced to cease operations for months at a time because they lack the foreign exchange to import needed parts and raw materials. Others are unable to pay debts to foreign creditors, in at least one case even for capital equipment purchased for a GOU priority project. Even where conversion at the official rate is possible, the cumbersome application process makes it difficult to plan production schedules.

Foreign exchange at the overvalued official rate has become scarcer each year since 1996 (understandably since the rate has become more and more overvalued).

A further disincentive to both investment and exports is the requirement that businesses earning foreign exchange must surrender a portion of it into soum at the official exchange rate. This surrender requirement, raised in January 1999 to 50% from an already steep 30%, is the effective equivalent of a hefty tax on exports. Furthermore, businesses report that the GOU has been assessing the surrender requirement on revenues as projected by the GOU, rather than on actual revenues, resulting in a significantly higher penalty. In implementing the surrender requirement the GOU said it was temporary, for one year, but nearly a year and half later the GOU still refuses lower or eliminate it. Some foreign investors have negotiated special decrees that exempt them from the surrender requirement.

A.3. Expropriation and Compensation

Although the GOU can legally expropriate property, with compensation at fair market value, there are no known cases of expropriation of a foreign investor's real property in Uzbekistan. Nor do observers believe there will be expropriations in the near future. The GOU has been known to take property from local businesses and individuals with inadequate compensation, however. It also made two still-uncompensated customs seizures of alcohol shipments in the summer of 1998, and one U.S. company's assets seized by prosecutors in connection with the investigation of the murder of one of that company's U.S. partners have been held for over a year.

A.4. Dispute Settlement

Uzbekistan does not have a uniform, well-defined method of settling disputes. International arbitration is permitted, but under current law, arbitration awards can be challenged in domestic courts, which may be reluctant to enforce foreign decisions. There are several cases, however, in which international arbitration awards have been successfully enforced in Uzbekistan. It is important to include provisions for international arbitration in agreements from the outset. In response to concerns raised by the AmCham, the GOU has expressed interest in establishing a dispute settlement mechanism based on the UNCITRAL model law on international trade arbitration.

Most disputes involve nonpayment of contractual requirements by state entities. Disputes with joint venture partners, whether state-owned or private, are also common. At least two foreign companies have not received payment even after being awarded judgment in international arbitration. Another has pursued and won in the courts a claim against customs for an illegal seizure of a shipment, but nearly two years later has still not received payment.

Uzbekistan does not have a well-developed legal system that fairly and effectively enforces property and contractual rights. GOU officials inconsistently interpret laws, which often conflict with each other. Government interference in the court system is common.

Uzbekistan is a member of the International Center for the Settlement of Investment Disputes and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

A.5. Performance Requirements/Incentives

A Presidential Decree issued on March 27, 1998 sets the following requirements for a JV to be established as an "enterprise with foreign investments" entitled to certain tax privileges:

1. An authorized fund of $150,000 or more;
2. Foreign investment comprising at least 30% of the authorized fund;
3. A foreign "juridical person" as one of the parties to the enterprise.

Joint ventures that meet the first criterion and whose projects are included in the National Investment Program receive a seven-year tax holiday. JVs with foreign ownership of 50% or more then pay only a 20% tax on profits for a subsequent two-year period. If invested capital is over one million dollars, the rate is reduced to 16%. JVs of any size that export and that produce at least 25% of their output for children are also granted a seven-year tax holiday; after that they receive a 50% tax reduction. JVs with foreign ownership over 50% are exempt from taxation on the profits they reinvest. As noted in section A1, additional benefits may be available to those companies that can negotiate their own decree; additional performance requirements may also be included in those decrees.

While there are no specific local content laws affecting foreign investors, the tax system differentiates among firms based on the local content of their products.

Generally, foreign ownership in JVs is not restricted. But the GOU is usually able through other means to exert influence over the operations and strategies even of companies in which foreign investors own over 50%. In many privatized enterprises, the GOU retains a minority share of about 25% and workers own another 25%, leaving investment funds without effective control.

In certain sectors, however, foreign ownership is restricted. For example, foreign banks may not operate in Uzbekistan except as partners in joint ventures with Uzbek firms, and foreign ownership of banks is limited to 50%. Banking and insurance firms with foreign participation are required to establish a charter capitalization fund of $5 million, whereas the GOU determines the required size of the charter funds of Uzbek firms on a case-by-case basis.

Visa requirements are not discriminatory, although companies report that practice ranges from easy to onerous. This probably results more from lack of clear instructions to consulates than from GOU policy. Residence and work permits for expatriate staff are readily granted at the beginning but are sometimes difficult to renew. Some business people of Middle Eastern or Turkish origin have had their visas revoked or not renewed. A May 1999 U.S.-Uzbek agreement eliminated the requirement for American citizens to have invitation letters in order to obtain business and other visas to Uzbekistan, but the requirement remains in place for citizens of other countries. U.S. citizens normally receive 4-year multiple entry visas, but validities vary by nationality and are generally much more restrictive for citizens of other countries.

The GOU employs a system of import contract registration to promote import substitution. Delays resulting from this requirement are a major problem affecting both foreign investors and their local counterparts. Although a 1998 presidential decree exempts foreign companies or joint ventures importing capital goods with funds held outside Uzbekistan from the registration requirement, foreign businesses report that in practice their Uzbek bankers require them to register anyway. In the fall of 1999 the GOU told the AmCham it was considering limiting the registration requirement to contracts financed from the state budget or under government guarantee, but as of August 2000 no such change had been made.

A.6. Right to Private Ownership and Establishment

Uzbekistan's laws and decrees guarantee the right of foreign and domestic private entities to establish and own business enterprises and to engage in most forms of remunerative activity. The state reserves for itself the export of cotton and gold, which generates most of Uzbekistan's foreign exchange earnings. Government-owned foreign trading organizations control the export and import of most key commodities. Foreign companies have been able to move into aspects of cotton and gold production, however, such as the grading, treatment and marketing of cottonseed and the mining and refining of gold.

Theoretically, private enterprises may freely establish, acquire, and dispose of equity interests in business enterprises. In practice, however, it can be difficult to do this, as securities markets are inadequately developed.

Business people in Uzbekistan note that if they are engaged in a sector in which either the GOU, or a GOU-controlled firm is a competitor, they face more than the usual amount of bureaucratic hurdles and currency conversion problems.

A.7. Protection of Property Rights

Uzbekistan's laws governing the acquisition and disposition of property pose relatively few problems for foreign investors. Foreign entities may own buildings, but ownership of land is possible only with special permission.

Although Uzbekistan is not a member of the Bern convention, the laws on the books and in development are reasonable and approach international standards. Because of poor enforcement, however, these laws have not made an appreciable dent in the wide availability of pirated material. Uzbekistan is a consumer, but not a producer of such material. On the streets, pirated audio and video tapes and compact disks are sold freely.

A.8. Transparency of the Regulatory System

Lack of transparency in the regulatory system is a major concern. Sudden legislative and regulatory changes are common; many decrees have secret provisions. The involvement of state bodies in commerce, including those with regulatory authority, produces inherently anti-competitive pressures.

One helpful step taken by the GOU in November 1998 was a decree limiting inspections by regulatory agencies to no more than 30 days a year without special authorization unless an agency has a specific legal mandate to conduct more frequent inspections. Anecdotal evidence (a reduction in the number of complaints from the dwindling number of foreign investors still in Uzbekistan) suggests this decree has reined in overuse of inspection.

A.9. Efficient Capital Markets and Portfolio Investment

Uzbekistan has not developed an efficient banking system. Uzbekistan's policy-makers are very wary of the destabilizing effects of international capital movements and have therefore not developed stock or security markets open to foreign portfolio investment.

While Uzbekistan is making some progress in banking reform, particularly in strengthening its bank supervision capabilities, the current system still resembles its Soviet predecessor. Most of the large state-owned banks still engage in GOU-directed lending to loss-making state-owned enterprises. Banks' income comes from fees or from their own investments rather than from interest income on business or consumer loans. Cross-shareholding among banks is common, and very few banks are really sound.

Restrictions on businesses' access to and use of cash in their accounts are a major problem for foreign investors and others. A March 24, 2000 decree improved this situation somewhat, freeing many farms, restaurants, cafes and other small and medium enterprises and many enterprises with foreign investment ($150,000 or more in foreign capital) to access their own funds in commercial bank accounts, so long as those funds were received and deposited within the previous ninety days.

Most other businesses may hold cash only for a small number of permitted purposes, such as paying salaries and travel expenses. All other money must be held in the bank; cash receipts must be deposited on the day they are received. Even small purchases, such as office supplies, must be paid for by bank transfer; use of petty cash is not allowed.

One recent improvement in the banking sector is that, effective June 1, 2000, companies may have more than one bank account. Previously, regulations aimed at facilitating the banks' role in tax collection had prohibited all but the largest companies from having more than one bank account. This will allow, for example, use of one bank with a large network of branches for payroll needs, but another for access to credit.

Other problems related to the role of banks in tax collection remain. As per a June 27 1998 Central Bank Instruction, banks are required to transfer money from their clients' accounts to the accounts of various organizations (the State Tax Committee, the Labor Exchange, the Employment Fund and the Procurator's Office) within three days of their formal claim. Clients are not entitled to prevent such transfers and transfers do not require any form of prior court order. Under current legislation, a bank should inform its client when a claim is made. The client can either accept the claim and make a payment, or apply to the entity issuing the claim to obtain permission to pay later or not pay at all. However, if, as often happens, a bank fails to inform its client within three days of the receipt of a claim, the bank must nevertheless make a payment from the account of its client without the client's approval.

Some other reforms have been made in the banking system. For example, western-style auditing and international accounting standards (IAS) have been introduced. Their use remains limited, however, because the tax inspectorate continues to use the old

Soviet accounting methods. Banks typically publish yearly reports with balance sheets and profit and loss statements, but these are generally less detailed than those published by similar western institutions.

Uzbekistan's securities market is not well developed. Under a World Bank project, 25% of the shares in many firms have been sold to Privatization Investment Funds (PIFs), but there is very little secondary trading in those shares. With rare exceptions, the PIFs have not been able to exercise influence in corporate governance.

A.10. Political Violence

On February 16, 1999 a series of car bombs targeted primarily at government buildings in Tashkent killed 16 people. The GOU blamed Islamic extremists, and tried and convicted several groups of defendants in connection with the bombings. The GOU has also responded with security measures such as security checkpoints and sharply restricted access to certain streets and buildings, as well as deportations of nationals of suspect countries. There have also been several incursions by small groups of insurgents in isolated mountainous areas in the autumn of 1999 and again in late summer 2000. The State Department has issued several public notices specifically about the security situation in Uzbekistan. There is no indication, however, that the February bombings were targeted at foreigners, nor have foreign investors been threatened.

A.11 Corruption

Uzbek law prohibits corruption, and officials removed from office under accusation of corruption are subject to prosecution. Government salaries are very low, however, and there is considerable anecdotal evidence that regulatory officials, who have considerable latitude in interpreting regulations, supplement their salaries through bribes. Several major incidents of bribe solicitation have been reported to the Embassy; there is also a widespread allegation that a 1.5% extra-legal payment is required to register some import contracts. Lack of transparency in bureaucratic processes, including many tenders as well as access to currency convertibility, also makes corruption more likely. The law does not forbid government officials from acting as "consultants", a common method of extracting payment.

B. Bilateral Investment Agreements

Uzbekistan has signed bilateral investment agreements with a total of 35 countries, including China, the Czech Republic, Egypt, Finland, France, Georgia, Germany, India, Indonesia, Israel, Italy, the Republic of Korea, Malaysia, the Netherlands, Pakistan, Poland, Russia, Saudi Arabia, Slovakia, Switzerland, Turkey, the United Kingdom, and the United States. Among these, six agreements, including those with India, Italy, Russia and the United States, have not yet entered into force. The agreement with the United States, the Treaty between the Government of the Republic of Uzbekistan and the Government of the United States of America concerning the Encouragement and Reciprocal Protection of Investment, was signed in Washington on December 16, 1994 and ratified soon thereafter by the Uzbek parliament. The U.S. Senate ratified the treaty in October 2000, but its entry into force is on indefinite hold pending a determination Uzbekistan's currency policies would permit it to be in compliance with the terms of the treaty.

C. OPIC and Other Investment Agreements

The U.S. Overseas Private Investment Corporation (OPIC) offers political risk and expropriation insurance and financing to eligible U.S. investors in Uzbekistan. OPIC is currently committed to a maximum of $150.9 million in political risk insurance coverage to the Newmont Gold Co. project in Uzbekistan's mining sector. OPIC is also committed to a maximum of $4.7 million in insurance coverage to the M C T of Russia LP project, and to a maximum of $28.5 million in insurance coverage to the M C T of the C I S Corp. project, for cellular telecommunications projects. Historically, OPIC has committed up to $190.9 million in insurance to five other projects in Uzbekistan, in the mining (Newmont Mining Corp. and Chemical Bank Corp.) and telecommunications (International TelCell Group) sectors. OPIC has not financed any projects in Uzbekistan, nor does it have any fund investments in Uzbekistan.

D. Labor

Literacy in Uzbekistan is almost universal, and workers are generally well-educated and trained. Most local technical and managerial training does not meet international business standards, but foreign companies engaged in production report that Uzbek workers learn quickly and work effectively. Foreign firms find that younger Uzbeks, untainted by the Soviet system, work well at all levels. The GOU emphasizes foreign education, and each year sends about 400 students to the United States, Europe and Japan for university degrees, after which they have a five-year commitment to work for the GOU. Some American companies offer special training programs in the U.S. to their local employees. With the closure or downsizing of many foreign firms, it is relatively easy to find qualified, well-trained employees, and salaries are very low by western standards. Salary caps, which the GOU implements in an apparent attempt to prevent firms from circumventing cash withdrawal restrictions, prevent many foreign firms from paying their workers as much as they would like. The threshold for the maximum income tax rate of 40% is 245,000 soum ($363) per year.

Labor market regulation in Uzbekistan is similar to that of the Soviet Union, with all rights guaranteed but some rights unobserved. The only known case of workers striking since independence was of Turkish construction workers striking against their Turkish employer over working conditions. There have been unconfirmed reports of Uzbek workers striking over nonpayment of wages.

E. Foreign Trade Zones/Free Ports

According to the law on free economic zones, passed on April 25, 1996, zones of free trade include consigned warehouses, free customs zones, and zones for the processing, packing, sorting and storage of goods. There is no foreign trade zones authority. Zones of free trade are created at border points, airports and railway junctions. Uzbekistan is a doubly landlocked country with no maritime frontiers.

F. Foreign Direct Investment Statistics

Prior to 1998 the GOU counted foreign credits as investment, which grossly inflated pre-1998 GOU investment statistics. Even by the new accounting, many foreign observers believe actual direct investment is significantly lower than the GOU's official figures indicate. Uzbekistan's lack of currency convertibility has caused foreign investment inflows to dwindle to a trickle. The GOU claims $298 million of new FDI in 1998 and $188 million in 1999.

Since Uzbekistan's independence, U.S. firms have invested roughly $500 million in Uzbekistan. Large U.S. investors include Newmont, reprocessing tailings from the Muruntau gold mine, Case Corporation, manufacturing and servicing cotton harvesters and tractors; Coca Cola, with bottling plants in Tashkent, Namangan and Samarkand; Texaco, producing lubricants for sale in the Uzbek market; and Baker Hughes, in oil and gas development.

Chapter 8 - Trade and Project Financing

Banking System

The banking system in Uzbekistan remains closely controlled by the state through a complex set of regulatory actions, decrees, proclamations and practices. Most banking assets remain in state-owned or controlled banks, and most loans are directed by the government, financed through the Central Bank of Uzbekistan (CBU), and guaranteed by the Ministry of Finance. Government officials generally consider these loans to be risk-free despite the fact that the government has defaulted on its obligations several times since July 2000. Lack of reform in the banking system constrains banks' profits and limits their role as financial intermediaries, thus inhibiting the ability of citizens or private companies to obtain credit and other banking services.

Bank Supervision

Although the Central Bank's independence is guaranteed by Uzbek law, it is in fact nominal. In principle, the government has indicated that it wants to reform the banking sector, and has been working with the World Bank and the U.S. Agency for International Development (USAID) on strengthening its bank supervision capacity. While cooperation has been excellent, and the project has established a comprehensive framework for supervision, lack of true Central Bank independence makes full reform problematic. The Central Bank is unable to enforce bank regulations properly, leaving banks free to operate with little regard for applicable banking regulations, or the need to operate in a fiscally safe and sound manner.

Principal Banks in Uzbekistan

Uzbekistan's state-owned National Bank of Uzbekistan for Foreign Economic Activity (NBU) functions as the financial gate between the Government of Uzbekistan and the rest of the world; it is the main channel for the inflow, distribution and servicing of foreign financing and investments. The NBU and a handful of other large state-owned banks, which serve largely as channels for government-directed lending, dominate Uzbekistan's banking sector. Uzbekistan also has several joint venture banks, including ABN Amro Bank and UzDaewoo Bank, which have a large share of the foreign business market. Several private banks have a tiny but growing share of Uzbekistan's banking market, especially for small and medium enterprises (SMEs).

Bank Privatization

Several of Uzbekistan's state-owned banks, beginning with Asaka Bank (50%), Pakhtabank (50%) and the NBU (40%) are slated for privatization under a $25 million World Bank financial sector loan signed in 1999. Three main issues hinder the government's bank privatization efforts, however. First, lack of transparency within both the government and the banking system will deter potential investors. Second, there is no definitive answer as to what should be done with the government-guaranteed assets currently in those banks being considered for privatization. Third, for some banks to be attractive to investors, currency controls must be eliminated.

Financing from International Financial Institutions

The European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB) and International Finance Corporation (IFC) have all extended credit lines for SMEs through state-owned banks such as the NBU, Asaka Bank, Promstroybank, as well as one private bank (Hamkorbank). Some of these banks have had access to foreign exchange to convert their clients' credit line payments, but most do not, leaving even profitable borrowers unable to repay their hard currency debts. Accordingly, most new credits are going to export-oriented ventures that will generate hard currency income for debt repayment. The EBRD and IFC also extend direct credits to private investors in Uzbekistan, and have made some equity investments. Together with the NBU, they are minority shareholders in ABN-Amro Bank; the EBRD also has a minority stake in UzDaewooBank. The EBRD and IFC are potential participants in the government's privatizations of Uzbektelecom, Uzbekneftigaz, banks, and other enterprises.

U.S. Export Credits

The U.S. Export Import Bank (ExIm) has provided a total of over $1 billion in credits for U.S. exports to Uzbekistan of aircraft and agricultural equipment, as well as the U.S. components of a battery factory, refinery, gas compressor station, and other major projects. ExIm is one of Uzbekistan's largest creditors, with about $1 billion in outstanding loans. ExIm's exposure in Uzbekistan is higher than in any other NIS country except Russia.

During FY 2000 Uzbekistan purchased 50,000 tons of soybeans with a $20 million GSM-102 credit, and 35,000 tons of wheat with a $10 million PL-480 credit. In FY 2001 the United States extended $15 million in PL-480 credit to purchase 54,000 tons of soybeans and 41,500 tons of rice. Uzbekistan is likely to purchase more soybeans with financing under GSM-102.

Chapter 9 – Business Travel

Let the Commercial Service Help Make Your Business Trip a Success

CS Tashkent has the goal of assisting U.S. business people with the logistical support necessary to explore business opportunities and conduct business in this young emerging market. Located in a modern office in Tashkent’s downtown business district, (contact information in Chapter 11).

The Gold Key Service is a service offered by the Commercial Service that can help ensure that your time spent in Uzbekistan is both productive and profitable. Through this service, the Commercial Service's experienced industry specialists will help you schedule meetings with key contacts in government and the business community so that you can market your products and services and explore investment opportunities. For more information about this service including the latest fee schedule please contact the Commercial Service in Tashkent.

These are just a few of the services available from the Department of Commerce to help make your business trip a success. For more information about our services contact U.S. Department of Commerce office nearest you, or visit our web site at http://www.usatrade.gov or call 1-800-USA-TRADE (872-8723).

Culture and Customs

While Tashkent is a fairly westernized, cosmopolitan city, the rest of Uzbekistan, especially in rural areas, tends to be a rather conservative, tolerant and hospital, Muslim-based culture. This means that Americans, particularly women, should be aware of different standards of dress, behavior, and living that are the norms here.

Dress

Western business attire is appropriate for most business meetings and in Tashkent western-style clothing is appropriate. Dress for men is more or less the same throughout the country. For women, however, there are two dress codes, one for Tashkent and one everywhere else. In Tashkent it is acceptable to wear short skirts, tops with bared shoulders, and pants. Outside of Tashkent the dress is much more conservative. A dress or skirt should be below the knee; short sleeves are fine, but the shoulder and front should be fully covered. Pants are acceptable if covered by a long top, as is done in Uzbek national dress. Women do not need to cover their heads, as is the case in some Muslim countries.

Behavior

There is no question that Uzbekistan is a male-dominated society. When there are large social gatherings of mixed company, the women and men usually sit in separate groupings. Exceptions are made for "honored foreign guests", and this practice does not apply to business gatherings. Much of the local social life revolves are the chai-khonas (tea-houses). While foreign women are allowed in, the chai-khonas basically serve as a men's club where they congregate and talk. Local women do not frequent the establishments. Women should take the lead in greetings and in offering a handshake; traditional Uzbek women do not normally shake hands, and well-behaved men do not take the lead in greeting unknown women.

Business Travel Tips

- If possible, make up business cards and company literature in Russian and/or Uzbek.
- When preparing a video presentation to market your goods or services, keep in mind that the video should be recorded in Pal or Secam as there are few multi-system VCRs that play NTSC (the U.S. standard).

- Uzbekistan is almost entirely a cash society. Credit cards are seldom used except at the major hotels and a few restaurants and shops. The most widely accepted credit cards are Visa and American Express.
- There is a single standard time zone in Uzbekistan, which is +5 hours GMT; Uzbekistan does not observe daylight savings time. During U.S. daylight savings time (April-October), Uzbekistan is +9 hours Eastern Standard Time. The remainder of the year Uzbekistan is + 10 hours EST.
- Dates are usually written in the following order: day, month, and year;
- Businesses and state organizations usually work from Monday to Friday from 9 a.m. till 6 p.m. Lunch is usually from 1 p.m. to 2 p.m.
- Weights and measurements are according to the metric system.

Business Infrastructure

Electricity is available throughout the country, but voltage fluctuations and power outages are common. Electric power requirements are 220 volts and 50 hertz; business travelers bringing electrical appliances from the U.S. should bring converters and plug adapters.

Uzbekistan's telephone network is slowly being modernized but it is common to have difficulty making a telephone call within Uzbekistan. International calls are often easier to make due to improvements in international telecommunication networks. The newest hotels in Tashkent, and many offices of international businesses and organizations are equipped with reliable, if expensive, satellite telephone lines from the British-Uzbek JV Buzton. Cellular telephone and paging services are available; Uzbekistan has six cellular phone service providers. Internet access is still largely limited to e-mail, but the number of Internet Service Providers has grown. There are several Internet Cafes in Tashkent and other cities.

Currency

Since the national currency, the soum, is not convertible there is a regulated rate of exchange offered at exchange booths (785 soum/dollar in April 2001) and a curb market exchange rate (about 900 soum/dollar) . It is illegal to exchange money except at authorized currency exchange offices and violation of this law is a punishable offense. Since April 1, 2000, foreigners have been obliged to pay for certain services (hotels, long-distance transportation, and telecommunications, among others) in dollars. According to current legislation, all other goods and services must be paid for in soum only.

The following regulations apply to currency import and export:

- Non-residents must declare all cash on their person. Residents of Uzbekistan can bring up to US$10,000 into the country free of charge, but amounts imported in excess of US$10,000 are subject to a one percent customs fee.
- In order to open a local bank account, one must submit a copy of the customs declaration form.
- In order totake out more money than one brought in, one must have a certificate from the National Bank or the Central Bank permitting one to take out that amount.

Travel Advisory and Visas

Visas are issued at Uzbekistan embassies and consulates abroad or, in countries where Uzbekistan does not have diplomatic representation, at Russian embassies and consulates. U.S. citizen generally receive four-year, multiple entry visas; for U.S. citizens a letter of invitation is not required. Other rules pertain to citizens of other countries. Uzbekistan suspended the 72-hour transit rule allowing travelers with other CIS visas to transit Uzbekistan. All travelers, even those simply transiting Uzbekistan for less than 72 hours, must obtain Uzbek visas before traveling to Uzbekistan. Travelers without a proper visa cannot register in hotels and will be fined and required to leave the country immediately. Further visa information is available at the Embassy of the Republic of Uzbekistan, 1746 Massachusetts Avenue, NW, Washinton, DC, 20036; Tel: (202) 293-6805; fax: (202) 293-6804, http://www.uzbekconsul.org. Within 3 days upon arrival to Uzbekistan visitors must register, either through their hotel or at the relevant office of the local immigration authorities (OVIR). For the latest U.S. travel advisory information on Uzbekistan, visit the State Department's web site at http://www.state.gov.

National Holidays in Uzbekistan in 2001

January 1	New Year's Day
March 6	Kurbon Hayit (Yid-ul-Adha)
March 8	Women's Day
March 21	Navruz
May 9	Victory Day
September 1	Independence Day
October 1	Teacher's Day
December 8	Constitution Day
December 18	Ruza Hayit (Yid-ul-Fitr)

Chapter 10 - Economic and Trade Statistics

	1996	1997	1998	1999	2000
Appendix A: Country Data					
Population (millions)	23.1	23.6	24.0	24.5	25.0
Population Growth Rate	1.8%	2.2%	1.7%	2.1%	2.0%
Appendix B: Domestic Economy					
GDP (in millions of soum, official statistic)	559100	976830	1358780	1942000	2557420
GDP (million USD at weighted rate)	10511	10310	9792	8175	5468
GDP (million USD at official rate)	13603	14645	14363	15425	10643
GDP (million USD at curb rate)	8875	6469	5960	4203	3294
GDP Growth Rate (official statistic)	1.6%	2.5%	4.4%	4.1%	4.0%
GDP per capita (at weighted	$455	$437	$408	$334	$219

rate)					
Government Spending as % GDP	34%	32%	35%	33%	34%
Inflation (official, average)	54	71	29	29	26
Unemployment (official, as percent of labor force)	0.4%	0.4%	0.5%	0.6%	0.7%
Foreign Exchange Reserves (gross, including gold, end of year)	1901	1167	1168	1242	na
Official CBU Exchange Rate - avg	41	67	94	126	240
Commercial Exchange Rate - avg	60	76	108	162	462
Curb Market Exchange Rate - avg	63	151	228	462	776
Debt Service Ratio	9.0%	9.0%	13.0%	17.8%	26.2%

Appendix C: Trade

Total Country Exports	3534	3695	3029	2946	3100
Total Country Imports	4240	3767	2938	2587	3000
U.S. Exports to Uzbekistan (million USD)	352	234	147	339	151
U.S. Imports from Uzbekistan (million USD)	159	39	34	26	35

Chapter 11 - U.S. AND COUNTRY CONTACTS

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Chapter 12 - MARKET RESEARCH

A comprehensive and up to date listing of Market Research is

available on the NTDB (National Trade Data Base). The
following listing is of most market research from FY 2000, and some
planned reports for FY 2001.

List of Available and Upcoming Industry Sector Analyses (ISAs):
Food Processing and Packaging Equipment
Medical Equipment
Oil and Gas Field Equipment/Services

List of Available and Upcoming International Market Insight Reports (IMIs):
2001 Trade Events in Uzbekistan
Aircraft production plant
BNP PARIBAS appointed as a financial advisor for NHC Uzbekneftegaz
Direct investment facility program announced by EBRD
First steps in privatization of the oil and gas sector: JSC Uzneftmahsulot offers its Shares to Foreign Investors.
Fuel prices increased in Uzbekistan
International copyright, U.S. & Foreign Commercial Service and U.S. Department of State, 2001. All rights reserved outside the United States.
Invitation for bids to purchase accounting and billing software for water projects in Uzbekistan.
Joint Stock Company Namanguntextile announced a tender.
Khoresm Regional Report
New car import tariffs
New Decrees Change the Procurement of Agricultural Equipment in Uzbekistan
New privatization program in Uzbekistan
New regulation on exports of the fresh fruits and vegetables
Pre-qualification tender announcement for supply of medicaments.
Samarkand elevator manufacturing plant for sale
Silk Industry Overview of Uzbekistan
Supermarkets in Tashkent
Tashkent municipal solid waste management project tender
Tashkent solid waste management project - transfer stations.
Tender announced by the Uzbeklegprom - association for the textile industry
Tender announcement by Uzbek construction materials joint stock company
Tender announcement for IT Systems
Tender for re-equipping the silk spinning plant in Uzbekistan
Tender to re-equip 10 silk spinning plants in Uzbekistan
The First Web Shop is opened in Uzbekistan
The Internet business tour holds its second session in Tashkent
Trading companies update
Transportation and shipping industry overview
Transportation infrastructure and services
Update on import duties effective March 1, 2001.
Uz-Daewoo Auto announced new model launch by late August 2001
Uzbek Agency on Post and Telecommunications foresees new perspectives in the telecommunication sector
Uzbek Leather Processing Industry Association –Uzbekcharmpoyabzali

Uzbek Railways Announced a Tender
Uzbek Telecommunication: New trends in development
Uzbekistan's fifth annual oil and gas show
Uzbekistan airways - opportunities for the manufacturers of air ground support equipment.
Uzbekistan changed excise duties
Uzbekistan cotton subsector improvement project invites for bids
Uzbekistan oil and gas sector: mixed results: gas production grows, while oil production decreases
Uzbekistan: hardware and software companies. year 2000 results.
Uzbekistan: Internet trends
Uzbekistan: new decree directs to improvement of national management in the telecommunication sector
Uzozikovkattaminot - new agency to procure food products
U.S.Ex-Im Bank insures $102.9 million credit for Uzbekneftegaz.
Wireless Communications "UZAVTOTRANS" corporation announced a tender for consulting services

The NTDB also contains IMIs related to Uzbekistan prepared by the European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (ADB). Commercial Service posts both in Uzbekistan and at Multilateral Development Banks send out time sensitive alert reports about tenders and trade opportunities for U.S. companies.

Please contact the Commercial Service post in Tashkent for Market Research on the Energy Sector and the Aerospace Sector prepared for Showcase Europe Trade Events.

Chapter 13 - Trade Events Schedule

April 10-12,2001 TIHE-2001, Healthcare Exhibition

Exhibition organizers: International Trade and Exhibitions, Ltd. (United Kingdom), the Ministry of Health, and the Ministry for Foreign Economic Relations of the Republic of Uzbekistan.

May 15-17,2001 OGU–2001, Oil and Gas equipment

Exhibition organizers: International Trade and Exhibitions, ltd. (United Kingdom), the National Oil and Gas Corporation Uzbekneftegaz, and the Ministry for Foreign Economic Relations of the Republic of Uzbekistan

Sept 11-15,2001 Ozupack-2001, Printing and Packaging equipment

This is the second annual exhibition of printing and packaging products in Uzbekistan by state and private enterprises and by joint ventures with foreign partners. Exhibition organizer: surpress company, state Publishing committee of Uzbekistan and the Uzbek Ministry of Foreign Economic Relations.

Sept 25-27,2001 Uztel-2001, Telecom, Energy and Power

Exhibition organizers: International Trade and Exhibitions, ltd. (United Kingdom Uzeltekhsanoat, Trade Association, Uzbek Agency for Post and Communication, Ministry of Communication, Ministry for Foreign Economic Relations, Ministry of Energy and Electrification of the Republic of Uzbekistan

Oct 9-11, 2001 Uzbuild-2001, Construction Materials & Equipment

Construction Materials and Equipment Exhibition.
Exhibition organizers: international trade and exhibitions, ltd. (United Kingdom), the ministry of foreign economic relations of the republic of Uzbekistan, Uzbek construction corporation Tashkentuyjoyinvestqurilish.

Nov, 2001 Consumer Expo/ 2001/Food Expo

Exhibition organizers: TNT Production Inc. (U.S.A.), and the Ministry of Foreign Economic Relations of the Republic of Uzbekistan.

Dec 19-23,2001 Consumer Goods Uzbekistan 2001

Exhibition Organizers: UZEXPOCENTER, Republican Trade and Exhibition Center and the Ministry for Foreign Economic Relations of the Republic of Uzbekistan.